



STATE OF WASHINGTON  
WASHINGTON STATE BOARD OF HEALTH  
*1102 SE Quince Street • PO Box 47990  
Olympia, Washington 98504-7990*

July 9, 2003

**To:** Washington State Board of Health

**From:** Don Sloma, Executive Director

**Re:** **OVERVIEW OF MAJOR HEALTH AND MEDICAL CARE PORTIONS  
OF THE 2003-05 BIENNIAL OPERATING BUDGET**

**SUMMARY**

According to Governor Locke's budget proposal released last December, the recession, slow economic recovery and soaring health care costs resulted in expected revenue for the coming two years falling short of expected expenditures by some \$2.4 billion in state funds.

The Governor called for balancing the budget without a general tax increase by identifying the results that people expect from state government, raising the bar for scrutiny of all state government activities, and using no more than currently anticipated revenue to fund that subset of current services that most directly contribute to the results. To determine these services, the Governor used a process he described as "Priorities of Government" or POG.

On June 5, the Legislature approved a spending plan for the 2003-05 biennium. The Legislature made several adjustments to the Governor's assumptions in preparing the budget, rejected some proposed reductions in DSHS programs, reduced the size of the cuts in the Basic Health Plan, made several new additions to the health and human services budget and shifted the funding of some programs between state general funds, federal funds and state health services account funds in ways that render simple and direct comparisons risky at best.

The final budget for health and human services is generally consistent with the Governor's Priorities of Government in that it contains fewer reductions in public health and social service programs for vulnerable children and adults than in programs providing medical care. These reductions were accomplished by applying one or more of the following reduction methods to many programs:

- tighter eligibility requirements,
- increased verification of those requirements,
- higher patient co-pays, deductibles, co-insurance and other cost sharing requirements,
- lower enrollment targets, (including some absolute enrollment caps),
- assumptions that many will opt out of subsidized care rather than pay a now increased share of total costs, and/or
- expanded use of fees for certain public health and other services.

It is also notable that the health and human services budget was helped into balance by redirecting new tobacco tax revenues raised under Initiative 773 and earmarked for expansion of the BHP to other health-related spending.

In addition, the final budget reduced the state share of public employee health benefits significantly through the combination of greater employee cost sharing and reductions in assumed inflation.

Despite several increases in specific programs, the final legislative budgets for the Departments of Health (DOH), Department of Social and Health Services (DSHS), and the Health Care Authority (HCA) appear to fall some \$585 million in total state and federal funds below the Maintenance Level<sup>1</sup> identified to keep current programs and services operating as mandated under laws on the books as of last January. This figure does not include an estimate of savings resulting from reducing assumed inflation and reducing the state share of public employee health benefits. Still, these three state agencies will provide some \$19.4 billion over the next two years for our state's medical, social service and public health economy. That amounts to some 43% of the state's total spending of funds it receives from all sources.

## **BACKGROUND AND DISCUSSION**

The following table summarizes the legislatively approved 2003-05 state operating budget prior to Governor Locke's final action.

### ***2003-05 Omnibus Operating Budget --- Conference Report***

(Dollars in Thousands)

	<b>FTEs</b>	<b>GF-S</b>	<b>Total</b>
Legislative	828.3	129,628	136,394
Judicial	578.4	78,492	162,179
Governmental Operations	7,434.6	411,400	2,726,735
Other Human Services	15,273.2	1,328,153	3,617,616
DSHS	17,762.2	6,605,069	15,841,747
Natural Resources	5,764.4	297,097	1,091,562
Transportation	764.3	48,834	123,957
Public Schools	282.6	10,107,136	11,909,095
Higher Education	43,803.4	2,667,245	7,400,550
Other Education	20.8	39,932	99,594
Special Appropriations	0.0	1,347,715	1,642,651
<b>Total Budget Bill</b>	<b>92,811.9</b>	<b>23,060,701</b>	<b>44,752,080</b>
<b>Appropriations in Other Legislation</b>	<b>2.6</b>	<b>1,000</b>	<b>95,515</b>
<b>Statewide Total</b>	<b>92,814.5</b>	<b>23,061,701</b>	<b>44,847,595</b>

---

<sup>1</sup> The "Maintenance Level" is calculated by finding the cost of current programs adjusted for expected changes in the price, intensity and caseload demand for existing services. In the DSHS Medical Assistance budget for example, "Maintenance Level" included many important assumptions such as a 13% increase in the intensity of services to be provided owing to the aging of the population and an increase in medically necessary treatments available as well as a 70,000 person increase in the number of persons eligible for the program under current law. Inflation adjustments were not assumed in the Maintenance Level, but were added as separate adjustments in the budgeting process. They are discussed in the body of this memo.

### ***Governor Locke's Proposed Budget --- The Priorities of Government***

According to Governor Locke's budget proposal released last December, the recession, slow economic recovery and soaring health care costs resulted in expected revenue for the coming two years falling short of expected expenditures by some \$2.4 billion in state funds. His solution was to propose a biennial budget that limited spending in the state's \$24 billion state fund budget by \$2.4 billion, including reductions of \$2.1 billion in the state's General Fund and \$275 million in the Health Services Account.

The Governor called for balancing the budget without a general tax increase by identifying results that people expect from state government, raising the bar for scrutiny of all state government activities, and using no more than currently anticipated revenue to fund that subset of current services that most directly contribute to the results. To determine these services, the Governor used a process he described as "Priorities of Government" or POG.

The Governor's Priorities of Government in health and human services included preserving the safety net for vulnerable children and adults, and strengthening the public health system, but eliminating health care programs less critical in ensuring the health and safety of people most at risk. He suggested that revenue from higher tobacco taxes mandated by a recently enacted citizens initiative to expand enrollment in the Basic Health Plan be used instead to prevent even more severe reductions in that program. The Governor's resulting health and human services budget would have spent \$7.5 billion in state funds, but would have saved \$543 million in state funds required to maintain current services.

### ***Final Legislative Budget—The Disposition of Government Priorities***

On June 5, the Legislature approved a spending plan for the 2003-05 biennium. The legislature made several adjustments to the Governor's assumptions in preparing the budget, rejected many proposed reductions in DSHS programs, reduced the size of the cuts in the Basic Health Plan, made several new additions and shifted the funding of some programs between state general funds, federal funds and state health services account funds in ways that render simple and direct comparisons risky at best. Legislative budget documents identify the health and human services component of the legislatively approved budget at some \$7.9 billion in state funds.

When combined with federal matching funds, the resulting appropriation is some \$19.4 billion in total funds. This represents some 43% of total state spending for the coming two-year period.<sup>2</sup>

The following are some highlights of the health and human services portions of the budget. The health and human services portions of a Senate Ways and Means Committee document, "2003-05 Operating Budget Highlights" is attached for more detail on the items listed below. Also attached are the House of Representatives agency summaries of the budgets for DOH, relevant divisions within DSHS, and HCA.

---

<sup>2</sup> The material summarized below is drawn the following state agency sources:  
[http://leap.leg.wa.gov/leap/Budget/Detail/2003/o0305highlights\\_0604.pdf](http://leap.leg.wa.gov/leap/Budget/Detail/2003/o0305highlights_0604.pdf)  
<http://www.leg.wa.gov/house/opr/app/03/0604rs.pdf>  
<http://www1.dshs.wa.gov/budget/dhhmain.shtml>

### ***The Big Picture***

In the main, the Governor's Priorities of Government were reflected in the budget approved by the Legislature. Despite several notable increases, the final legislative budgets for the DOH, DSHS and HCA appear to fall some \$585 million in total state and federal funds below the Maintenance Level identified to keep current programs and services operating as mandated under laws on the books as of last January. This figure does not include reductions from "Maintenance Level" funds required for public employee health benefits.

The final budget for health and human services contains smaller reductions in public health and social service programs for vulnerable children and adults than in programs providing medical care to some of these same populations. These reductions were accomplished by applying one or more of the following reduction methods to most major programs:

- tighter eligibility requirements,
- increased verification of those requirements,
- higher patient co-pays, deductibles, co-insurance and other cost sharing requirements,
- lower enrollment targets, (including some absolute enrollment caps),
- assumptions that many will opt out of subsidized care rather than pay a now increased share of total costs, and/or
- the expanded use of fees for certain public health and other services.

Finally, the health and human services budget was helped into balance by the redirecting of tobacco tax revenues earmarked under the terms of Initiative 773 for expansion of the BHP to other health related spending.

### ***Public Health***

Secretary Selecky will address the Board at today's meeting on the public health portions of the budget. These items will not be reviewed here.

### ***Some Program Enhancements***

In addition to restoring dozens of proposed program reductions in the health and human services area, the budget contained several new program initiatives. They included:

- A \$.75/hour wage increase for Home Care Workers at a cost of \$44.9 million in state and federal funds in long-term care programs and \$17.3 million in developmental disabilities programs.
- A total of \$91.7 million in state and federal funds for a 3 percent increase in non-capital nursing home payments, raising the weighted average payment to \$147.43 in FY 2005.
- A total of \$848,000 in state and federal funds for the cost of Medicaid patients to receive the five new State Board of Health recommended newborn screening tests.
- A total of \$18.6 million in federal funds for Regional Support Networks that identify new sources of qualifying local matching funds.

### ***Reductions in DSHS Medical Assistance***

One of the major thrusts of the budget was to reduce medical assistance payments for the poor and disabled. Some \$278 million was reduced from the \$2.7 billion state funds required to continue current medical assistance programs in the coming biennium.<sup>3</sup> This will mean that

---

<sup>3</sup> Additions and reductions are calculated from the "Maintenance Level" budget identified in the Legislative Summaries attached. This level is calculated by finding the cost of current programs adjusted for expected changes

some \$337 million in total funds will be reduced from the \$7.6 billion in total state and federal funds required for current DSHS Medical Assistance Administration operations. The largest of these reductions included:

- Replacing the state-funded Medically Indigent Program with two smaller, federally matched programs of direct payments to hospitals
- Reducing inflationary increases in payments to managed care plans to 3.3 percent for each calendar year of the biennium
- Requiring payment of a share of premiums for Medicaid coverage of families with children whose incomes exceed \$1,300 per month for a family of three
- Reducing by some 25,000 adults and children those receiving medical assistance through increased efforts at eligibility verification.
- Consolidating drug purchasing across state agencies, increasing use of generics and negotiating greater discounts with manufacturers.
- Reducing the scope of adult dental care by 25 percent.
- Reducing payments for Durable Medical Equipment by 5 percent in the second year of the biennium.

### ***Reductions in The Basic Health Plan***

A second major thrust was to reduce the cost of the Basic Health Plan (BHP), while redirecting new revenue from a citizen approved initiative that raised tobacco taxes to expand BHP. These changes account for virtually all of the reductions in the Health Care Authority's budget from a Maintenance Level of \$916 million to \$538 million for the 2003-05 biennium. This was accomplished primarily by the following means:

- Repealing Initiative 773's requirement to increase enrollment to 160,000, and immediately capping enrollment at 120,000
- Amending Initiative 773's requirements to maintain a minimum BHP enrollment using existing state funds and to increase that with new tobacco tax revenues to 175,000 by July 2005
- Further reducing BHP enrollment by attrition to 100,000 by January 2004
- Reducing the value of BHP covered benefits to 82 percent of their current value by increasing enrollee cost-sharing.

### ***Reductions in Other Health and Human Services Programs***

Other significant reductions in health and human services programs included:

- Eliminating some \$19.8 million in state and federal funds that had been proposed but was rejected by the court to settle a lawsuit brought by ARC on behalf of the developmentally disabled.
- Saving some \$11.8 million in state and federal funds by reducing the spousal resource retention limits to increase the proportion of personal funds some 500 seniors will have to pay for long-term care services before becoming eligible for Medicaid services.

---

in the price, intensity and caseload demand for existing services. In the DSHS Medical Assistance budget for example, "Maintenance Level" included many important assumptions including that of a 13% increase in the intensity of services to be provided owing to the aging of the population and an increase in medically necessary treatments available as well as a 70,000 person increase in the number of persons eligible for the program under current law. Inflation adjustments were not assumed in the Maintenance level, but were added as separate adjustments in the budgeting process. They are noted in the text of this memo.

- Saving some \$15.8 million in state and federal funds by limiting enrollment in the COPES program to a level that is expected to exclude some 700 people who would otherwise received help from that program.
- Saving \$5.2 million in state and federal funds by not providing in-home personal care services to some 475 people.
- Saving \$13.7 million by increasing scrutiny of those receiving General Assistance-Unemployable (GA-U) to be sure their medical or mental condition has not improved.
- Saving \$4.2 million when mentally ill children's families with incomes in excess of 100% of the poverty level opt out of the program rather than pay the newly required premium
- Saving an additional \$4.2 million when mentally ill children's families are found ineligible for the program due to increased scrutiny of eligibility.
- Saving \$4.6 million by reducing funding for substance abuse treatment through the Treatment Alternatives to Street Crime program, while preserving Drug Courts.
- Saving \$2.0 million by no longer providing substance abuse treatment for the gravely disabled.

### ***Public Employee Health Benefits***

Notwithstanding earlier speculation that premiums for state, K-12 and higher education employee health insurance benefits might increase by as much as 20% per year, the Legislature's final budget assumed an increase of 15.5 percent per year in 2003-05. The state's cost of this increase was partially offset by: (1) increasing office visit co-pays from \$10 to \$15; and (2) requiring employees to pay an average of 16 percent of the cost of the benefit, compared to 14 percent this calendar year. At the 16 percent employee share, the state's share will increase to \$592 per month during CY 2005 for the average employee's individual and family health benefit coverage, compared to an average of \$482 this year. During calendar year 2005, the average employee will pay \$111 per month, compared to an average of \$72 per month now. The K-12 allocation for monthly employer contribution rates is increased from \$457.07 in the 2002-03 school year to \$526.03 in the 2003-05 biennium, consistent with the increase in state employer contribution rates per employee.

The budget materials used to compile this summary displayed no specific dollar amounts reflecting the "Maintenance Level" funding required for public employee health benefits, and some dispute continues about the appropriate assumptions to use in estimating inflation. However, speculation is that the final budget reduced the state share of public employee health benefits by as much as \$80 million dollars for the biennium through the combination of greater employee cost-sharing and reductions in assumed vs. actual inflation.